

First-time Homebuyer Savings Account

Unlocking Homeownership for Mississippians

What is it?

A savings account for first-time homebuyers that offers tax advantages for individuals up to \$2,500 a year and up to \$5,000 a year for couples.

Who is it for?

Any Mississippian who has never purchased, owned, or partially owned a home in Mississippi or any other state.

Where can I create an account?

You can create a First-time Homebuyer Savings Account at any bank, credit union, or other financial institution licensed to do business in Mississippi. It can be a cash deposit account or money market account.

Why would I want to create one?

When you are ready to buy a single-family home, you will have money saved to help make the purchase. Plus, money deposited in the account is deductible from state income, which lowers your tax bill. Interest earned on the deposits is also free from state income tax.

When can I create one?

You can open a First-time Homebuyer Savings Account and start saving today. You can start taking a tax deduction beginning in the 2018 tax year.

How does it work?

Beginning in 2018, individuals can deduct up to \$2,500 from their state adjusted gross income when they make deposits into a First-time Homebuyer Savings Account. Couples can deduct up to \$5,000 a year. It's a dollar-for-dollar deduction up to the limits. (i.e., if an individual deposits \$50, then it's a \$50 deduction. If an individual deposits \$3,000, it's a \$2,500 deduction. If a couple deposits \$50, it's a \$50 deduction. If a couple deposits \$6,000, it's a \$5,000 deduction.)

What homes are eligible?

Eligible single-family homes include newly-constructed homes, existing homes, manufactured homes, modular homes, mobile homes, condominium units, or cooperatives.

More information is available at

FirstHomeMS.org



What can savings be used for?

Savings can be used for down payments, loan origination charges, appraisal fees, credit report fees, flood certifications, title charges, deed charges, and other closing costs listed on the settlement statement of a first-time home purchase.

How long may I keep my account open?

Your account can stay open year after year until you decide to buy your first home in Mississippi as long as the account holder is a qualified first-time homebuyer.

Is there a limit on how much money I can save?

No. Every year, individual filers can save up \$2,500. Married couples filing jointly can save up to \$5,000 every year. Deposits can be made year after year so long as at least one (1) qualified account holder remains alive.

Can I put more than \$2,500 or \$5,000 into my First-time Homebuyer Savings Account one year?

A single account holder and married couples filing jointly can deposit more than stated limits each year, but the excess money is not eligible for a tax deduction and is treated as ordinary income.

Can I make First-time Homebuyer Savings Account contributions to an existing account that contains funds held for a different purpose?

No, First-time Homebuyer Savings Account must be a new, separate account designated for a first-time home purchase in Mississippi through a qualified financial institution.

Do I pay Mississippi taxes when I make a withdrawal from my First-time Homebuyer Savings Account?

No, as long as the money is used for a down payment or allowable closing costs of a first-time home purchase in the state of Mississippi by a qualified beneficiary.

How do I take the deduction with the Mississippi Department of Revenue?

The Department of Revenue is creating forms to report First-time Homebuyer Savings Account contributions beginning with the 2018 tax return.

What if I use the money for something other than a first-time home purchase?

The amount withdrawn for an unqualified use is taxed as gross income and also assessed a 10 percent penalty.

The penalty will be waived if 1) the account holder dies, 2) the account holder becomes disabled, 3) the balance is disbursed as part of bankruptcy filing, or 4) the balance is transferred to another First-time Homebuyer Savings Account.

Can I open an account for a child or grandchild?

Yes; the law defines an “account holder” as an individual who establishes a savings account individually or jointly with one or more other individuals. A grandparent can open an account with a grandchild. The grandchild, as a qualified beneficiary, could claim first-time homebuyer savings account status on his or her Mississippi income tax return when he or she qualifies to file one. Remember that only cash and marketable securities may be contributed to the account.

What if the account holder dies?

If the account holder who is a qualified beneficiary dies and there is no other qualified beneficiary on the account, the money in the account can be withdrawn by the surviving joint account holder or the legal heir of the deceased. The ten percent penalty will be waived, but the money may be subject to tax as gross income.

What if I move out of Mississippi or purchase a house outside of Mississippi?

Your account can remain open if you move out of state. However, the savings only can be used for an eligible purchase in Mississippi. If the money is withdrawn for an unqualified use, it will be subject to gross income tax and a 10 percent penalty.

Do I pay Mississippi taxes when I make a withdrawal from my First-time Homebuyer Savings Account?

No, as long as the money is used for a down payment or allowable closing costs of a first-time home purchase in the state of Mississippi by a qualified beneficiary.

Do I pay federal taxes on the money?

Deposits to the First-time Homebuyer Savings Account are exempt from state taxes up to the annual limit. However, the deposits are still subject to federal taxes, depending on your individual tax situation. Annual earned interest on the accounts is also exempt from state tax, but is still subject to federal tax. (See Figure 1.)

Does the financial institution have to file any new paperwork?

No. The account holder is responsible for ensuring his or her eligibility and filing the appropriate tax forms. The financial institution will issue a 1099 as it normally would for any interest-bearing deposit account.

**Figure 1:
Federal and State tax chart**

	Federal	Mississippi
Contribution to a First-time Homebuyer Savings Account	No effect	Deductible up to \$2,500 for individuals & \$5,000 for couples
Interest on First-time Homebuyer Savings Account	Taxable	Not Taxable
Withdrawals for Eligible Expenses	No effect	Not Taxable
Withdrawals for Ineligible Expenses	No effect	Taxable
Penalty for Ineligible Withdrawal	Not Deductible	Not Deductible

Disclaimer:

This FAQ provides general information and should only be used for general information purposes. This FAQ is not intended to be, and should not be considered, legal or financial advice.

Any questions should be directed to a properly qualified legal, tax or financial advisor.

